

ROYAL OAK TWP HOUSING COMMISSION

Financial Statements

March 31, 2008

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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John C. DiPiero, P.C.

Certified Public Accountant

P. O. Box 378
Hemlock, Michigan 48626
Tel / Fax (989) 642-2092

Board of Commissioners
Royal Oak Twp. Housing Commission
8900 Cloverdale Avenue
Ferndale, Michigan 48220

Independent Auditor's Report

I have audited the financial statements of the Royal Oak Twp. Housing Commission's Business Type Activities as of and for the year ended March 31, 2008. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Royal Oak Twp. Housing Commission as of March 31, 2008, and the results of its operations and the cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 29, 2008, on my consideration of the Royal Oak Twp. Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, if fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

September 29, 2008

ROYAL OAK TWP. HOUSING COMMISSION
Management Discussion and Analysis
March 31, 2008

This discussion and analysis of the Royal Oak Twp Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the financial statements.

This annual report includes the Management Discussion and Analysis report, the Basic Financial Statements and the Notes to Financial Statements. This report also contains the Financial Data Schedule (FDS) as referenced in the section Supplemental Information. The Commission's financial statements are presented as fund level financial statements because the Commission only has proprietary funds.

Entity-Wide Statements

The combined financial statements show, in one place, all the Commission's operations. Our statements are prepared on the accrual basis of accounting, which is similar to that used by most businesses. Under this method, all revenues and expenses connected with the fiscal year are taken into account even if the cash involved has not actually been received or paid. The Financial Data Schedule included within the audit report contains all the programs of the Commission.

Fund Statements

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Proprietary Fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

Entity-Wide Financial Highlights

The Commission was awarded and received the following Federal Assistance:

	<u>Year 2008</u>	<u>Year 2007</u>
Operating Subsidies	\$ 454,965	\$ 434,697
Capital Projects Funds	0	161,637

Comparison of the current year to the past and discussion of significant changes as follows:

	<u>Year 2008</u>	<u>Year 2007</u>	<u>Net Change</u>
Cash & cash equivalents	\$ 453,775	\$ 237,383	216,392
Accounts Receivable	6,539	85,323	(78,784)
Investments	0	199,304	(199,304)
Prepaid Expenses	35,252	34,314	938
Fixed Assets, prior to Depreciation	7,819,575	7,809,778	9,797
Total Liabilities	65,986	164,970	(98,984)
Net Assets	3,374,420	3,635,128	(260,708)

Management Discussion and Analysis-continued

	<u>Year 2008</u>	<u>Year 2007</u>	<u>Net Change</u>
Revenues:			
Tenant Revenues	\$ 182,149	\$ 184,824	\$ (2,675)
HUD Grants	454,965	596,334	(141,369)
Other Revenues	<u>28,524</u>	<u>9,268</u>	19,256
Total Revenue	<u>665,638</u>	<u>790,426</u>	(124,788)
Expenses:			
Administrative	190,341	208,878	(18,537)
Tenant Services	24	53,177	(53,153)
Utilities	117,496	109,704	7,792
Maintenance & Operations	297,616	250,528	47,088
General Expenses	27,768	50,387	(22,619)
Depreciation Expense	<u>293,101</u>	<u>402,976</u>	<u>(109,875)</u>
Total Operating Expenses	<u>926,346</u>	<u>1,075,650</u>	(149,304)
Net Change in Net Assets	(260,708)	(285,224)	24,516

Our cash position increased \$ 216,392, however, our investments decreased \$ 199,304, accounts receivable decreased 78,784, prepaid expenses remained virtually unchanged, fixed assets increased \$ 9,797, total liabilities decreased \$ 98,984, and net assets changed by the net loss of \$ 260,708.

A combination of events have affected our balance sheet; cash and investments changed positions, we had a net income before depreciation \$32,393, decreased our accounts receivable \$ 78,784, and retired our liabilities \$ 98,984. The net income (before depreciation) and accounts receivable generated enough cash to reduce our liabilities (\$ 32,393 + 78,784= 111,177)

HUD grants are a result of requisitioning eligible funds. HUD grants received are a result of calculations under the Performance Funding System and Capital grants authorized and obligated during the year. Total HUD grants were lower because the Commission did not draw any of the Capital fund during the year; subsidies were lower by \$ 20,268. The Commission terminated the Director and staff during the year and hired a professional management company- during the transition, we did not withdraw any of our Capital Fund Program (CFP).

In the transition from a Director and staff to a management company, our expenses also had a lot of volatility. The management company placed emphasis on staff training, unit turn-around, and getting control of the operations; several expense accounts reflect a change in management styles, however, the end result was only a \$ 24,516 change in net loss for the year. Significant changes in expenses during the year are as follows:

Management Discussion and Analysis-continued

Administrative salaries decreased \$ 18,537 as a result of not having an Executive Director's salary, but a lesser paid position called project manager- executive decisions are made by the management company and the management fee covers those cost. Tenant services decrease as the previous administration had a full time tenant services employee and the management company does not. Utilities increased by normal rate increases. Maintenance cost increased as a result of the management company aggressively making needed repairs and bringing in enough staff to improve unit turnover, increase as a result of additional staff \$ 47,088. General expenses decreased \$ 22,619 as a result of lower insurance premiums- the management company took advantage of knowing the business and finding better rates. Depreciation expense decreased because we added very little in the way of new office equipment and older building depreciation is running out.

The Commission provided the following housing for low to moderately low income families:

	<u>Year 2008</u>	<u>Year 2007</u>
Low Rent Public Housing	128	128

General Fund Budgetary Highlights

The Commission approved an operating budget, however, HUD failed to approve the budget. Since an Inspector General's audit in 2004, we have had to submit our budget to the HUD area office; HUD did not approve our budget, therefore, we operated the entire year without an approved budget.

We have prepared a budget for the 2009 fiscal year and have submitted it to HUD for approval; we anticipate working with HUD and having an approved budget for the up coming fiscal year.

Entity Wide Capital Assets

Fixed assets before depreciation increased \$ 9,797- the increase was for additional office equipment when the management company began its administration.

The following represents our current major fixed asset categories:

Land	\$ 126,725
Buildings & Improvements	7,225,518
Furniture &	
Equipment-Admin	96,876
Construction in Progress	<u>370,456</u>
	<u>\$ 7,819,575</u>

The Commission plans on drawing the 2008 CFP for the following: replace flooring in 27 units, \$ 90,000, replace cabinet/counters in 18 units, \$ 86,000, and install gas lines for dryers in 44 units, \$ 30,000.

Management Discussion and Analysis-continued

Commission's Position

We anticipate current funding levels for operations and capital improvements will remain consistent with past years; therefore, the Commission expects to continue to provide safe, sanitary and decent housing for the low and moderately low income families.

The Commission underwent an Inspector General's audit in 2004; the results were suggested repayments of subsidies and some expenditures, imposed sanctions on the board, and being classified as troubled by the area office until certain objectives were met. The Commission has been working with the area office to determine the exact amount to be repaid and specific objectives to be completed. The Commission believes the hiring of the management company and working with HUD will result in a much better situation; we believe the repayment amount will be determined and settled in the near future.

Questions or comments concerning this Management Discussion and Analysis may be directed to:

Sabrina Gaddy, Property Supervisor
% Fourmidable
32500 Telegraph
Bingham Farm, Michigan 48025

ROYAL OAK TWP HOUSING COMMISSION
Statement of Net Assets
March 31, 2008

ASSETS

C-3166

CURRENT ASSETS

Cash	\$	453,775	
Accounts Receivable (Net)		6,569	
Prepaid Expenses		<u>35,252</u>	
Total Current Assets			\$ 495,596

NON CURRENT ASSETS

Land	\$	126,725	
Buildings & Improvements		7,225,518	
Furniture, Equipment- Administrative		96,876	
Construction in Progress		370,456	
Accumulated Depreciation		<u>(4,874,765)</u>	
Total Non Current Assets			<u>2,944,810</u>

TOTAL ASSETS \$ 3,440,406

ROYAL OAK TWP HOUSING COMMISSION
Statement of Net Assets
March 31, 2008

LIABILITIES

C-3166

LIABILITIES:

CURRENT LIABILITIES

Accounts Payable	\$	24,665
Accrued Wages & Payroll Taxes		5,829
Tenants Security Deposit		13,221
Deferred Revenues		2,281
Accrued Liabilities- Other		<u>19,990</u>

<u>Total Current Liabilities</u>	\$	65,986
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NET ASSETS:

Invested in Capital Assets, net of Related Debt	\$	2,944,810
Unrestricted Net Assets		<u>429,610</u>

<u>Total Net Assets</u>		<u>3,374,420</u>
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<u>TOTAL LIABILITIES & NET ASSETS</u>	\$	<u>3,440,406</u>
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The Accompanying Footnotes are an Integral Part of the Financial Statements

ROYAL OAK TWP HOUSING COMMISSION
Statement of Revenues, Expenses, and Changes in Net Assets
For the year ended March 31, 2008

OPERATING REVENUE

Tenant Rental Revenue	\$ 181,959	
Tenant Revenue-Other	190	
HUD Grants	454,965	
Interest Income	15,963	
Other Income	<u>12,561</u>	
<u>Total Operating Revenue</u>		\$ 665,638

OPERATING EXPENSES

Administrative	\$ 190,341	
Tenant Services	24	
Utility Expenses	117,496	
Ordinary Maintenance	297,616	
General Expenses	27,768	
Depreciation Expenses	<u>293,101</u>	
<u>Total Operating Expenses</u>		<u>926,346</u>
<u>Operating Income (Loss)</u>		\$ (260,708)

CAPITAL CONTRIBUTIONS

		<u>0</u>
<u>Changes in Net Assets</u>		\$ (260,708)
Total Net Assets- Beginning		<u>3,635,128</u>
Total Net Assets- Ending		\$ <u>3,374,420</u>

The Accompanying Notes are an Integral part of the Financial Statements

ROYAL OAK TWP HOUSING COMMISSION
Combined Statement of Cash Flows
For the Year Ended March 31, 2008

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$	186,216
Payments to Suppliers		(236,151)
Payments to Employees		(201,502)
HUD Grants		454,965
Other Receipts (Payments)		<u>28,524</u>
Net Cash Provided (Used) by Operating Activities	\$	232,052

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	\$	<u>(15,660)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$	216,392
Balance- Beginning of Year		<u>237,383</u>
Balance- End of Year	\$	<u>453,775</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$	(260,708)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation		293,101
Changes in Assets (Increase) Decrease:		
Receivables (Gross)		78,754
Investments		199,304
Prepaid Expenses		(938)
Changes in Liabilities Increase (Decrease):		
Accounts Payable		(31,861)
Accrued Liabilities		(18,248)
Security Deposits		(1,029)
Accounts Payable- Other Governments		(6,477)
Deferred Revenue		<u>(19,846)</u>
Net Cash Provided by Operating Activities	\$	<u>232,052</u>

The Accompanying Notes are an Integral part of the Financial Statements

ROYAL OAK TWP HOUSING COMMISSION
Notes to Financial Statements
March 31, 2008

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Royal Oak Twp Housing Commission, Ferndale, Michigan, (Commission) was created by ordinance of the Township of Royal Oak. The Commission signed an Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 33-1, 2	Low rent program	128 units
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In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is a legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, there are no component units.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to Financial Statements- continued

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1999, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1999, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 31, 1989, unless they conflict with Governmental Accounting Standards Board (GASB) pronouncements.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Notes to Financial Statements- continued

Due to/From Other Funds

During the course of operations, numerous transactions occur between individual funds for goods or services; these receivables and payables are classified as "due from" or "due to" other funds on the Balance Sheet.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is reported as Invested in Capital Assets, Net of Related Debt.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	15-40 years
Equipment	3-10 years

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

Checking Accounts	\$ 453,575
Petty Cash	<u>200</u>
Financial Statement Total	<u>\$ 453,775</u>

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	Categories			Carrying Amount	Market Value
	1	2	3		
Cash:					
Checking A/C's	\$ 453,575	\$	\$	\$ 453,575	\$ 453,575
Petty Cash	<u>200</u>			<u>200</u>	<u>200</u>
Total Cash	<u>\$ 453,775</u>	<u>\$</u>	<u>\$</u>	<u>\$ 453,775</u>	<u>\$ 453,775</u>

Notes to Financial Statements- continued

Note 3: Accounts Receivable

Accounts Receivable consist of the following:

Accounts Receivable- Tenants	\$	12,181
Allowance for Doubtful Accounts		<u>(5,612)</u>
	\$	<u>6,569</u>

Note 4: Prepaid Expenses

Prepaid expenses consist of unused insurance premiums covering future periods. The benefits of the insurance will be written off systematically over the remaining periods until fully expired.

Note 5: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	Beginning <u>of Year</u>	Additions	Deletions	End <u>of Year</u>
Land	\$ 126,725	\$	\$	\$ 126,725
Buildings & Improve	7,209,858	15,660		7,225,518
Furniture & Equipment-Admin	102,739		5,863	96,876
Construction in Progress	<u>370,456</u>	<u></u>	<u></u>	<u>370,456</u>
	\$ 7,809,778	\$ 15,660	\$ 5,863	\$ 7,819,575
Less Accumulated Depreciation	<u>4,581,664</u>	<u>293,101</u>	<u></u>	<u>4,874,765</u>
	\$ <u>3,228,114</u>	\$ <u>(277,441)</u>	\$ <u>5,863</u>	\$ <u>2,944,810</u>

Note 6: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 7: Combining Financial Data Schedules.

The totals in the Combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

Notes to Financial Statements- continued

Note 8: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 15,449,736
General Liability	1,000,000
Errors & Omissions	1,000,000
Automobile	1,000,000
Worker's Compensation and other riders:	
Coverage's required by the State of Michigan	

Note 9: Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Note 10: Management Company Contract

The Commission hired a professional management company to provide staff and accounting services in running the Commission's property. The company is Fourmidable; therefore, pension expense, compensated absences, and other related payroll cost are not represented- the employees are Fourmidable employees and not Commission employees; the actual payroll cost for the staff is reimbursed to the management company. The cost to manage the property and provide all accounting is included in the management fee; the fee is equivalent to \$ 33 per unit per month.

Royal Oak Twp Housing Commission

31-Mar-08

MI033

Combining Balance Sheet		Low Rent 14.850	Capital Projects Funds 14.872	TOTAL
Line Item #				
	ASSETS:			
	CURRENT ASSETS:			
	Cash:			
111	Cash - unrestricted	440,554	-	440,554
112	Cash - restricted - modernization and developmer		-	-
113	Cash - other restrictec			-
114	Cash - tenant security deposit	13,221		13,221
100	Total cash	453,775	-	453,775
	Accounts and notes receivables			
121	Accounts receivable - PHA project			-
122	Accounts receivable - HUD other project	-		-
124	Accounts receivable - other governmer	-		-
125	Accounts receivable - miscellaneou	-	-	-
126	Accounts receivable- tenants - dwelling rent	12,181		12,181
126.1	Allowance for doubtful accounts - dwelling rent	(5,612)		(5,612)
126.2	Allowance for doubtful accounts - othe			-
127	Notes and mortgages receivable- curren			-
128	Fraud recovery			-
128.1	Allowance for doubtful accounts - fraud			-
129	Accrued interest receivabl			-
120	Total receivables, net of allowances for doubtful account	6,569	-	6,569
	Current investments			-
131	Investments - unrestrictec	-		-
132	Investments - restrictec			-
142	Prepaid expenses and other asset	35,252		35,252
143	Inventories			-
143.1	Allowance for obsolete inventorie			-
144	Interprogram - due from	-	-	-
146	Amounts to be providec			-
150	TOTAL CURRENT ASSETS	495,596	-	495,596
	NONCURRENT ASSETS:			
	Fixed assets:			
161	Land	126,725		126,725
162	Buildings	2,840,682		2,840,682
164	Furniture, equipment & macinery - admininstratio	82,581	14,295	96,876
165	Leasehold improvement	4,384,836	-	4,384,836
166	Accumulated depreciator	(4,845,909)	(28,856)	(4,874,765)
167	Construction in Progress		370,456	370,456
160	Total fixed assets, net of accumulated depreciatio	2,588,915	355,895	2,944,810
171	Notes and mortgages receivable - non-curren			-
172	Notes and mortgages receivable-non-current-past du			-
174	Other assets			-
175	Undistributed debits			-
176	Investment in joint venture:			-
180	TOTAL NONCURRENT ASSETS	2,588,915	355,895	2,944,810
190	TOTAL ASSETS	3,084,511	355,895	3,440,406

	LIABILITIES AND EQUITY:			
	LIABILITIES:			
	CURRENT LIABILITIES			
311	Bank overdraft	-		-
312	Accounts payable ≤ 90 days	24,665		24,665
313	Accounts payable > 90 days past due	-		-
321	Accrued wage/payroll taxes payable	5,829		5,829
322	Accrued compensated absence	-		-
324	Accrued contingency liability	-		-
325	Accrued interest payable			-
331	Accounts payable - HUD PHA program		-	-
332	Accounts Payable - PHA Project			
333	Accounts payable - other government	-		-
341	Tenant security deposits	13,221		13,221
342	Deferred revenues	2,281	-	2,281
343	Current portion of Long-Term debt - capital project			-
344	Current portion of Long-Term debt - operating borrowing			-
345	Other current liabilities	19,990	-	19,990
346	Accrued liabilities - other	-	-	-
347	Inter-program - due to	-	-	-
310	TOTAL CURRENT LIABILITIES	65,986	-	65,986
	NONCURRENT LIABILITIES:			
351	Long-term debt, net of current- capital project			-
352	Long-term debt, net of current- operating borrowing			-
353	Noncurrent liabilities- other	-		-
354	Accrued Compensated Absences-Non Current	-		-
350	TOTAL NONCURRENT LIABILITIES	-	-	-
300	TOTAL LIABILITIES	65,986	-	65,986
	EQUITY:			
501	Investment in general fixed asset			-
	Contributed Capital:			
502	Project notes (HUD)	-		-
503	Long-term debt - HUD guarantee	-		-
504	Net HUD PHA contributions	-	-	-
505	Other HUD contributions	-		-
507	Other contributions			-
508	Total contributed capital	-	-	-
508.1	Invested in Capital Assets Net of Related Debt	2,588,915	355,895	2,944,810
	Reserved fund balance			-
509	Reserved for operating activities			-
510	Reserved for capital activities:	-		-
511	Total reserved fund balance	-	-	-
511.1	Restricted Net Asset:	-	-	-
512.1	Unrestricted Net Asset:	429,610		429,610
513	TOTAL EQUITY	3,018,525	355,895	3,374,420
600	TOTAL LIABILITIES AND EQUITY	3,084,511	355,895	3,440,406

- - -

Royal Oak Twp. Housing Commission

31-Mar-08

MI033

Combining Income Statement

		Low Rent 14.850	Capital Projects Fund 14.872	TOTAL
Line Item #				
	REVENUE:			
703	Net tenant rental revenue	181,959	-	181,959
704	Tenant revenue - other	190		190
705	Total tenant revenue	182,149	-	182,149
706	HUD PHA Operating grants	454,965	-	454,965
706.1	HUD PHA Capital grants		-	-
708	Other government grants	-		-
711	Investment income - unrestricted	15,963	-	15,963
712	Mortgage interest income	-		-
714	Fraud recovery			-
715	Other revenue	12,561		12,561
716	Gain or loss on the sale of fixed asset			-
720	Investment income - restricted		-	-
700	TOTAL REVENUE	665,638	-	665,638
	EXPENSES:			
	Administrative			
911	Administrative salaries	75,993	-	75,993
912	Auditing fees	12,600	-	12,600
913	Outside management fees	16,896	-	16,896
914	Compensated absence	-		-
915	Employee benefit contributions- administrative	22,879	-	22,879
916	Other operating- administrative	61,973	-	61,973
	Tenant services			
921	Tenant services - salaries	-		-
922	Relocation costs	-		-
923	Employee benefit contributions- tenant services	-		-
924	Tenant services - other	24		24
	Utilities			
931	Water	51,105		51,105
932	Electricity	54,416		54,416
933	Gas	11,975		11,975
934	Fuel			-
935	Labor			-
937	Employee benefit contributions- utilities			-
938	Other utilities expenses	-		-
	Ordinary maintenance & operation			
941	Ordinary maintenance and operations - labor	125,509		125,509
942	Ordinary maintenance and operations - materials & other	27,425	-	27,425
943	Ordinary maintenance and operations - contract cost	107,051	-	107,051
945	Employee benefit contributions- ordinary maintenance	37,631		37,631
	Protective services			
951	Protective services - labor			-

[illegible]

ROYAL OAK TWP HOUSING COMMISSION
Status of Prior Audit Findings
March 31, 2008

The prior audit of the Royal Oak Twp Housing Commission for the period ended March 31, 2007, contained six audit findings; the corrective action taken by the Commission is as follows:

- 1) Excessive Accounts Receivable- the level of Accounts Receivable has decreased, however, still above acceptable levels; see finding.
- 2) Davis Bacon Act Discrepancies- No Capital Funds were draw in the current year, therefore, no discrepancies for monitoring occurred.
- 3) Inspector General Audit Report- issues still not resolved; see finding.
- 4) Tenant Accounting Discrepancies- the items mentioned in the prior year finding have been resolved, however, new concerns have arose which are stated in the findings.
- 5) No Approved Operating Budget- have not had an approved (HUD) operating budget since fiscal year 2004- see finding.
- 6) Management Assessment Deficiencies- the Management Assessment reporting has been changed in the past year; currently the field office is supposed to appear on site and gather the required data, therefore continued reporting discrepancies will not be know until the Area Office conducts the review.

ROYAL OAK TWP HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
March 31, 2008

I have audited the financial statements of the Royal Oak Twp Housing Commission of Ferndale, Michigan, as of and for the year ended March 31, 2008, and have issued my report thereon dated September 29, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Commission's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Royal Oak Twp Housing Commission's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. I did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

My consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be a material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs.

This report is intended solely for the information of management, Board of Commissioners, and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Certified Public Accountant
Hemlock, Michigan
September 19, 2008

ROYAL OAK TWP HOUSING COMMISSION
Schedule of Findings and Questioned Cost
March 31, 2008

Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing		X
Capital Projects Fund		X

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted _____ Yes X No

Significant Deficiency (ies) noted _____ Yes X No

Non Compliance material to financial statements noted _____ Yes X No

Report on compliance for Federal programs-

Unqualified

Material weakness(es) noted _____ Yes X No

Significant Deficiency (ies) noted X Yes _____ No

Non Compliance material to financial statements noted _____ Yes X No

Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did not qualify as a low risk auditee.

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Low Rent Public Housing	No	None	03-1; 04-4; 06-2; 08-1
Capital Projects Fund	No	None	None

ROYAL OAK TWP HOUSING COMMISSION
Schedule of Findings, Recommendations and Replies
March 31, 2008

The following findings of the Royal Oak Twp Housing Commission, for the year ended March 31, 2008, were discussed with the Property Supervisor, Ms. Sabrina Gaddy, in an exit interview conducted August 22, 2008:

Finding 03-1) Excessive Accounts Receivable.

Criteria-

Average tenant accounts receivable based on units in possession at March 31, 2008, were \$ 95. HUD prescribes \$ 15 per unit average as acceptable; the average over the past three years were as follows:

March 31, 2005	\$	125
March 31, 2006		147
March 31, 2007		127

Condition-

The Commission has had a number of staffing changes over the past three years; as of December 2007, a management company was hired to run the day to day operations- the average has decreased 25 % over the prior year, however, still six times larger than HUD prescribes.

Questioned Cost-

None

Effect-

The Commission is losing the availability of cash flow by having such a large accounts receivable balance; the Admission and Continued Occupancy Policy (ACOP) has remedies for non payment including assessing late fees, filing in court, and eviction which should be employed consistently.

Cause-

Unenforced collection policy.

This is a repeat finding.

Recommendation

The management company has had success at other properties, and, has reduced the total balance over the prior year in the four months in which they have been in charge. I recommend the Commission continue to monitor the accounts receivable balance and use the methods approved in the ACOP to remedy non compliance.

Reply

As you are aware we are making progress with reducing the tenant accounts receivable. The Commissioners have revised the lease and ACOP to adopt policies to enforce collections. The Commission monitors the accounts receivable balances and repayment agreements have been entered into. Payments are being received in most cases as agreed and legal cases are pending against those who have not.

Finding 04-4) Inspector General Audit Report 2004.

Criteria-

The Office of Inspector General (IG) for HUD conducted an audit of the Royal Oak Twp Housing Commission and issued their report on November 29, 2004. The report cited the following findings:

- Public Housing Units did not meet Federal Requirements for Physical Condition and Handicap Accessibility
- Board Commissioners Interfered with the Day-to-Day Operations of the Housing Commission
- Repayment of subsidies used improperly

Condition-

The board and director have changed several times since the audit was done; currently a management company runs the daily operations. As stated in prior years, the amount and location to repay the subsidies has not been defined by either the IG or HUD; resolution of the this finding has not been outlined by HUD.

Questioned Cost-

None

Effect-

The finding will remain open until HUD defines the amount and location for the repayment to take place; HUD also needs to address the question of non-federal funds. The IG audit report suggested that interest income could be considered non-federal funds, therefore, how far back can interest income be considered for repayment? Interest earned since development may be sufficient to make the repayment.

Cause-

Mis-management in prior years by prior administrations and boards; disregard for HUD rules and regulations.

This is a repeat finding.

Recommendation

The audit report goes into great detail outlining the unit deficiencies and suggests it may cost as much as \$ 5 million to repair. The report cites over 1100 deficiencies; it also examines the funding the Commission has received in the past several years. The report suggests that if all the funds had been properly applied, these deficiencies may not have occurred, and concludes that to punish the Commission for these failures the 2004 subsidy should be returned to HUD. I cited this as a finding in the March 31, 2004 audit and it was repeated in the March 31, 2005, 2006 and 2007 audits. In 2004, I disagreed with the IG's position concerning retribution in the amount of \$ 367,516. Apparently, HUD disagreed with that position as well; in a letter dated March 23, 2005, from the Director of Public Housing, Detroit Field Office to the Regional Inspector General for Audit, it was suggested that the calculation was in error and that a more appropriate amount would be \$ 91,879.

In that letter, under Corrective Action 1A, it is recommended that the \$ 91,879 be further reduced to \$ 43,768 due to some maintenance charges which, after documentation, should be allowed as an offset. In the same response, the Director of Public Housing suggested that other procedural findings be corrected, and in addition, under Corrective Action 2A \$ 45,220 be repaid to the Public Housing Program from non-Federal funds for the operating subsidy that was not used in accordance with HUD's One Strike Policy. Under Corrective Action 2D, the Director of Public Housing agreed with the IG's recommendation to repay the cost of a sign in the amount of \$ 7,999., if paid with Federal funds.

The recommendations from the Director of Public Housing were subject to approval by the Office of Inspector General for HUD; and finally, the March 31, 2005 audit, conducted by another auditing firm, suggested the entire matter had been cleared December 2005?

A question was raised by the Hackley Bank & Trust concerning local vs federal funds; the concern centered around collateral requirements if federal funds (subsidies) are deposited in an account with other non federal or local funds (rents). Under those circumstances, was the bank obligated to pledge securities to cover local funds? The Department of the Treasury, Bureau of Government Financial Operations responded in a letter dated January 25, 1980 in this manner: "this is to advise that the Department of Housing and Urban Development has informed this office that in their opinion the funds in question are not public moneys and therefore should not be secured by a pledge of collateral under the terms of Department Circular 176."

The Commission received a letter from the Director of Public Housing February 26, 2006 stating the following: "Be advised, the closure dates of the open findings has been extended to October 31, 2006. In addition to the deadline extension, the monetary amount for recommendation 1A has been reduced from \$ 367,516 to \$ 91,879., however all other findings remain unchanged." Does this imply that the IG agreed with the Director of Public Housing's recommendations, except for the additional reduction of \$ 48,111 for maintenance cost as stated under Corrective Action 1A? Does the letter further imply that the other monetary amounts agreed to by the Director of Public Housing must be repaid? The correspondence provided to me by the Housing Commission Director during the course of the audit was unclear concerning the above audit issues; unless other correspondence exists, it is uncertain what the IG or HUD has agreed to or expects? The Office of Inspector General for HUD is a completely separate branch of government with regulatory authority; since the IG conducted the audit and proposed its own corrective actions, I believe they need to notify the Commission, in writing, of their expectations.

Therefore, I recommend the following:

- 1) HUD and the IG agree to the findings and monetary repayment necessary, and put their decisions in writing to the board; until all parties have agreed to what the findings are, corrective action may not satisfy both the IG and HUD.
- 2) HUD needs to issue a written definition of what constitutes non-Federal funds consistent with the position taken on depository requirements as discussed above so that the Commission can respond accordingly.
- 3) A reasonable amount of time is afforded the Commission to resolve these matters once 1 & 2 have been clearly delineated.

Reply

- Work is currently in progress to meet Federal Requirements for Physical Condition and Handicap Accessibility.
- Board Commissioners do not interfered with the Day-to-Day Operations of the Housing Commission.
- A repayment plan has been submitted to the Detroit HUD office and is pending approval.

Finding 6-2) No Approved Operating Budget.

Criteria-

HUD requires annual audits be approved by the Board; the Board did pass a budget, however, the Commission is under a 'Memorandum of Agreement' (MOA) due to items discovered during the IG audit and therefore the budget is subjected to HUD approval. HUD did not approve the budget for the fiscal year ended March 31, 2008.

Condition-

This is the second year in a row that the Commission has not had an operating budget approved by HUD. The MOA requires HUD be notified of all cash disbursements prior to payment and approve all contracts before they may be executed.

Questioned Cost-

None

Effect-

Fiscal responsibility is impossible without some form of budget to gauged expenditures against; the lack of an operating budget will continue to cause the Commission to operate ineffectively. HUD felt the original budget was irresponsible and needed to be changed, however, no budget is just as irresponsible.

Cause-

The Commission's operating cost exceeded revenues to the point that HUD would not approve the proposed budget. HUD has cut subsidies by almost 20% in recent years and still expects the Commission to provide safe, sanitary and decent housing for low income families. The budget must be approved by both the Board and HUD while under the MOA.

This is a repeat finding.

Recommendation

The Commission needs to prepare an annual budget to be approved by both the Board and HUD; the budget should be prepared in time to be implemented and used in the fiscal year.

Reply

The Commission is in the process of approving a budget for fiscal year end March 31, 2009 to submit to HUD for approval. We are also in the process of completing the IG audit items therefore the budget should be approved.

Finding 08-1) Tenant Accounting Discrepancies.

Criteria-

The following required items were not found during the audit:

- No inspections for the past fiscal year.
- No notification to the tenants concerning the Violence Against Woman's Act (VAWA).
- Pet policy is not in compliance with Federal (HUD) and State (Michigan) rules.

The above items are required by HUD or the State of Michigan.

Condition-

Annual inspections were not done in the fiscal year, or if completed, not found by the management company. VAWA requires insertion into the ACOP, notification to the tenants, and reference in the lease. The pet policy needs to comply with HUD and State requirements; currently, it is a fixed dollar amount. The State law says all deposits can not exceed one and one half months rent; HUD rules suggest the pet deposit can not exceed the rent in the month the pet is acquired. A fixed dollar amount may exceed both the aforementioned requirements.

Questioned Cost-

None

Effect-

The Commission is not compliant with HUD regulations.

Cause-

Lack of knowledge concerning HUD regulations.

Recommendation

The Commission has suffered a lot of staff turnover in the past several years, and the files and compliance issues have surfaced. The prior audit had a finding concerning tenant related matters, one of which was the lack of complete inspections; other items appear to have been corrected.

I recommend the Commission implement a plan to insure the management company is in compliance with HUD regulations; the staff needs to be monitored and files reviewed to insure compliance.

Reply

- A 100% inspection will be scheduled.
- VAWA will be added to the ACOP, referenced in the lease, and residents will be notified.
- Clarification is needed to explain why our Pet Policy does not meet Federal (HUD) compliance? When the Detroit HUD office was contacted regarding the state law regarding security deposits it was not viewed the same as a Pet Deposit. We were notified to follow HUD guidelines which we feel we are doing.